

EXECUTIVE SUMMARY OF PG&E CORPORATION'S SUBMISSION TO SEC

PG&E Corporation has fully complied with all legal requirements of an exempt holding company under the Public Utility Holding Company Act¹ (“PUHCA” or the “Act”). The Petition filed by the California Attorney General’s Office (“AG’s office”) selectively launched an unjustifiable attack on PG&E Corporation’s exemption from registration under PUHCA. While PG&E Corporation has done nothing to merit any investigation by the Commission, it has met the highest standards of conduct and would embrace any review the Commission considers appropriate.

There is no truth to the assertion that PG&E Corporation engaged in any financial abuses, let alone abuses that would have been avoided had it been registered as a holding company under PUHCA. To the contrary, PG&E Corporation’s financial practices with respect to its only utility subsidiary, Pacific Gas and Electric Company (the “Utility”), were prudent and proper for any business. They surpassed the SEC’s standards for registered holding companies. Prior to the unprecedented surge in wholesale energy prices in late 2000, Pacific Gas and Electric Company was one of the most financially-sound utilities in the United States. It received consistently high credit ratings from Standard and Poor’s and Moody’s, placing it in the upper tier among comparable utilities nation-wide. It also maintained a conservative capital structure with an equity-to-capital ratio approaching 50% under California Public Utility Commission (“CPUC”) and rating agency methodologies. The AG’s office has not complained to the SEC (nor should it) about similar financial practices by California’s other utilities, whose credit ratings and equity ratios were comparable to PG&E’s. Each year the CPUC approved the Utility’s capital structure after it was presented with the Utility’s expected sources and uses of cash, including the very dividends and stock repurchases the Petition now recasts as abusive.

The California electric industry restructuring scheme required Pacific Gas and Electric Company to sell a large portion of its generation assets, forcing it to reduce its size. It appropriately responded by reducing its capitalization across the board, both debt and equity alike. The Utility reduced its equity through regular quarterly dividends and stock repurchases, reflecting the same prudent financial practices followed by each of California’s three largest energy utilities. PG&E Corporation passed over 95% of these payments on to its public shareholders. The Utility paid PG&E Corporation for income taxes as if it were a separate taxpayer, following well-established CPUC policy. Under PG&E Corporation’s strict application of this policy and despite its own financial distress, it paid the Utility a tax refund of \$1.1 billion in early 2001. These practices were fully in keeping with SEC policy for both exempt holding companies like PG&E Corporation and registered holding companies. Yet the Petition has singled out PG&E Corporation for selective attack. Subjecting PG&E Corporation or the other California utility holding companies to PUHCA registration would not have avoided the dysfunctional energy market in California or the distress of California’s largest utilities. These resulted from flawed restructuring, rules preventing the Utility from entering into long

¹ 15 U.S.C. § 79 *et seq.*

term contracts to protect against supply and price risks, an unprecedented spike in wholesale energy prices, and illegal rules preventing the Utility from flowing these costs through to its customers. No amount of oversight by the SEC of any California utility holding company could have avoided the harm imposed by the problems inherent in California's restructuring scheme and the later failures to react with sound financial regulatory policies in the face of skyrocketing wholesale energy prices.

The Petition does not even correctly state the SEC's longstanding legal standards under PUHCA. PG&E Corporation meets all requirements of an exempt holding company under Section 3(a)(1)² of PUHCA. That section provides that a public utility holding company qualifies for an exemption from registration if the holding company and its public utility subsidiaries are "predominantly intrastate in character and carry on their business substantially in a single State." The predominantly intrastate requirement applies only to *public-utility companies* from which a holding company derives a material part of its income, not to all businesses as the Petition implies. The only PUHCA public-utility company owned by PG&E Corporation is Pacific Gas and Electric Company. Its activities are located 100% within the state of California. PG&E Corporation's non-California electric generation, electric and natural gas trading, and natural gas pipeline businesses are all non-utility activities by act of Congress. They do not affect PG&E Corporation's intrastate exemption. In fact, the SEC considers each of these kinds of businesses to be appropriate activities for registered holding companies.

PG&E Corporation urges the Commission to notify the California AG's office of the Petition's failure to raise any issues justifying revocation of or an inquiry into PG&E Corporation's exemption. PG&E Corporation asks the Commission to confirm that PG&E Corporation's exemption under Section 3(a)(1), its conduct of appropriate businesses in separate subsidiaries, and its distribution policy have all been consistent with the standards of the Act, the public interest and the interest of investors and consumers. If the Commission decides to conduct an inquiry into the facts, PG&E Corporation would embrace the opportunity to demonstrate that its ongoing activities and its dealings with its affiliated utility met the standards for exemption and meet all applicable regulatory requirements.

² 15 U.S.C. § 79c(a)(1).